FANEUIL HALL MARKETPLACE:
THE DIFFERENTIAL IN CITY AND STATE TAX YIELD

Christopher Carlaw
Research Department
Boston Redevelopment Authority

September 1978

Kevin H. White, Mayor
City of Boston

Robert J. Ryan, Director
Boston Redevelopment Authority

Alexander Ganz
Research Director

In July of 1976, coinciding with the Nation's bicentennial celebration, the Quincy Market Building reopened at Faneuil Hall Marketplace. This would be the first of the three parallel buildings to open, and followed a public investment of $10 million leveraging more than $30 million in private investment. In August 1977, the South Market Building opened. Complementing the Quincy Market's concentration of 75,000 sq. ft. of retail space, the South Market provides 80,000 sq. ft. of retail space and 90,000 sq. ft. of office space. In late August of 1978, the North Market Building, completing the complex, opened with 60,000 sq. ft. in retail and 80,000 sq. ft. in office space.

The development of the Faneuil Hall Marketplace, with the Boston Redevelopment Authority and the Rouse Company of Columbia, Maryland the prime participants, serves as a fine illustrative example of the difficulty a Massachusetts municipality has in deriving a fair tax benefit return on its public infrastructure investment.

As has been well-documented, the State government in Massachusetts reserves for itself the use of sales, personal income, hotel occupancy and corporate income excise taxes. Municipalities are restricted to an excessive reliance on

the property tax. So-called 121A agreements for payments to the City in-lieu-of taxes (for construction replacing blighted areas) have been the only viable means of attracting new development in the City in recent years, as tax liability is fixed at a negotiated percentage of gross income or gross rents. A similar incentive, called Tax Letters of Agreement, are extra-legal instruments negotiated on an individual basis and with payments made directly to the City. In 1975, the BRA negotiated a 99-year lease for the Rouse Company and a Tax Letter of Agreement which provides for property tax payments at the time of project completion (July 1979) at 25 percent of gross rents.

The phenomenal "success" of the Faneuil Hall Marketplace's Quincy Building has been widely proclaimed with $300 sales per sq. ft. experienced by retailers. This success has spurred analysis of the degree of fiscal "success" the City has experienced in generating this development. This paper focuses on the differential in return to the City versus the State.

As Table 1 indicates, the State is estimated to receive annually about four times the tax benefit to the City. This future yield is estimated given the existing two-year

experience of the Quincy and South Buildings and a presumption of similar effects with the North Building. Looking at the Quincy versus the North and South Buildings individually, the ratio improves for the City with the latter structures. This is primarily due to the inclusion of office space reflecting less State sales tax generation. The development issue highlighted in these figures is the financial incentive the City has (does not have) in expending public infrastructure funds to generate a tax benefit return, when the State is clearly the greater beneficiary. If the City had authority mandated by the State Legislature, to levy a sales or income tax, the success of the Rouse Company would become immediately the fiscal success of the City's development effort.

This City/State tax yield comparison underscores the City's concern that the State Legislature give careful consideration to Boston's legislative package and the tax broadening measures it contains.*

---

* Office of the Deputy Mayor for Fiscal Affairs, The Fiscal Legislative Package of the City of Boston: Revisited, December 7, 1977.

Table 1

FANEUIL HALL MARKETPLACE - TOTAL COMPLEX

215,000 sq. ft. retail space
170,000 sq. ft. office space

Retail sales $57,500,000

860 retail workers
850 office workers

Sales Tax*:	$2,300,000
Corporate Income Tax:	1,788,000
Rouse Corporate Income Tax:	113,362
Income Tax:	897,000
Total Annual Estimated State Yield =	$5,098,362
Total Annual Estimated City Yield =	$1,417,031

City is 20% Yield of State (in Quincy Building).
City is 31% Yield of State (in South Building).
City is 32% Yield of State (in North Building).

City is 28% Yield of State (Total Complex).

* State meals tax is considered reduced to 5 percent as of January 1, 1979.

Table 2

FANEUIL HALL MARKETPLACE - QUINCY BLDG.

75,000 sq. ft. of retail space

$300 sales per sq. ft.

Sales of $22,500,000

300 workers @ 250 sq.ft./worker

Sales Tax:	20% tax exempt = $4,500,000 sales	0
	15% @ 5% (sales) 3,350,000	$167,500
	65% @ 5% (meals) 14,650,000	732,500
	Total Sales Tax Yield	900,000
Net Corporate Income Tax:		
	30% of $22,500,000 = $6,750,000 profit	
	8% corporate income excise on profit =	540,000
Rouse Corporate Income = $1,265,625		
	8% tax on 25% profit =	25,312
Income Tax from 300 workers		
	Assumed $9,000 salary per worker	
	5% tax on $2,700,000 =	135,000
	Total Annual Revenue for State	$1,600,312
City Revenue Based on Lease Agreement with Rouse Co.:		
	25% of Gross Rent of $1,265,625 =	316,406
	Total Annual Revenue for City	$316,406

Table 4

FANEUIL HALL MARKETPLACE - NORTH BLDG.

60,000 sq.ft. of retail space
80,000 sq.ft. of office space

$250 sales per sq. ft. in retail

Sales of $15,000,000

240 retail workers @ 250 sq. ft./worker
400 office workers @ 200 sq. ft./worker

Sales Tax:	20% tax exempt =	$3,000,000 sales	0
	50% @ 5% (sales)	7,500,000	$375,000
	30% @ 5% (meals)	4,500,000	225,000
	Total Sales Tax Yield		$600,000

Net Corporate Income Tax:

30% of $15,000,000 retail sales = $4,500,000 profit	
8% corporate income excise on profit =	360,000
30% of $8,000,000 office income @ $100/income/sq. ft. = $2,400,000	
8% corporate income excise on profit =	192,000

Rouse Corporate Income Tax: $1,012,500 retail
960,000 office
$1,972,500 total

Tax 8% on 25% of Total = 39,450

Income Tax:

240 workers @ $9,000 =	$2,160,000	
5% of $2,160,000 =	108,000	
400 workers @ $12,000 =	4,800,000	
5% of $4,800,000 =	240,000	
Total Income Tax Yield =		348,000

Total Annual Estimated Revenue for State $1,539,450

City Revenue based on lease agreement with Rouse Co.

25% of retail rent of $1,012,500 =	253,125
25% of office rent of $960,000 =	240,000
Total Annual Estimated Revenue for City	493,125

Table 3

FANEUIL HALL MARKETPLACE - SOUTH BLDG.

80,000 sq. ft. of retail space
90,000 sq. ft. of office space

$250 sales per sq. ft. in retail

Sales of $20,000,000

320 retail workers @ 250 sq.ft./worker
450 office workers @ 200 sq.ft./worker

Sales tax:	20% tax exempt =	$4,000,000 sales	0
	50% @ 5% (sales)	10,000,000	$500,000
	30% @ 5% (meals)	6,000,000	300,000
	Total Sales Tax Yield		$800,000

Net Corporate Income Tax:

30% of $20,000,000 = $6,000,000 profit	
8% corporate income excise on profit =	480,000
30% of $9,000,000 office income @ $100 income/sq.ft.	
8% of $2,700,000 profit =	216,000

Rouse Corporate Income: $1,350,000 retail
1,080,000 office
$2,430,000 total

Tax 8% on 25% of above = 48,600

Income Tax:	320 workers @ $9,000 = $2,880,000	
	5% of $2,880,000 = 144,000	
	450 workers @ $12,000 = 5,400,000	
	5% of $5,400,000 = 270,000	
	Total Income Tax Yield =	414,000
	Total Annual Estimated Revenue for State	$1,358,600

City Revenue Based on Lease Agreement with Rouse Co.

25% of retail rent of $1,350,000 = 337,500
25% of office rent of $1,080,000 = 270,000

Total Annual Estimated Revenue for City $607,500